

VZCZCXRO5367  
RR RUEHLN RUEHVK RUEHYG  
DE RUEHVL #0202 0981452  
ZNR UUUUU ZZH  
R 071452Z APR 08  
FM AMEMBASSY VILNIUS  
TO RUEHC/SECSTATE WASHDC 2138  
INFO RUCNCIS/CIS COLLECTIVE  
RUEATRS/TREASURY DEPT WASHDC  
RUEHVEN/USMISSION USOSCE 0200  
RUEHBS/USEU BRUSSELS  
RHMFISS/HQ USEUCOM VAIHINGEN GE  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK

UNCLAS VILNIUS 000202

SIPDIS

AMEMBASSY MINSK SENDS

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E.O.12356: N/A

TAGS: [ECON](#) [PGOV](#) [ENRG](#) [BO](#)

SUBJECT: RUSSIA NOT BUDGING ON BELARUS GAS PRICES

¶1. Russia's Deputy Minister of Economic Development and Trade Andrey Belousov told a news conference in Minsk on March 21 that the price of natural gas to be supplied to Belarus in the second quarter of 2008 will be USD 128 per thousand cubic meters. The price was calculated in compliance with the formula agreed upon by Russia and Belarus in December 2006 and, despite the GOB's negotiating efforts, will not be adjusted downwards. For 2008, the base price for Belarus will be 67 per cent of Gazprom's price for European customers, excluding transportation costs and Russia's 30 percent export duty. The rate will increase to 80 per cent of the European rate in 2009, and will reach parity in 2011.

Speculation Abounds  
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¶2. There have been increased levels of speculation about natural gas prices for Belarus in recent weeks, ranging from Prime Minister Sidorskiy's claim of "no price increase" to Aleksandr Lukashenko's warning that "prices will double." Russia's Ambassador to Belarus Aleksandr Surikov weighed in, stating that the price of USD 128 set for the second quarter of 2008 will not change until the end of the year.

GOB Guessed Wrong On Gas  
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¶3. In 2006 the GOB prepared budgets based on the Russian government's estimates of 2007-2009 world gas and oil prices, and concluded it would pay no more than USD 140 through 2009. New estimates now show the price could rise to USD 203. Such a difference between budgeted figures and actual prices will cause significant shortfalls in the Belarusian budget, especially considering that 97.9 percent of Belarus' electricity is generated using natural gas. Senior officials of the Belarusian government have engaged in talks with Gazprom since late 2007 trying to reach compromise on the pricing schedule to no avail.

Comment  
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¶4. The GOB will certainly continue its efforts to mitigate the gas price increase through further negotiations with Gazprom. Russia might make some concessions in the form of loans, but is less likely to budge on price hikes. As a result, the GOB will need to find new ways to deal with the resulting increased budget deficits.

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